

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6224

BILL NUMBER: SB 160

NOTE PREPARED: Dec 13, 2014

BILL AMENDED:

SUBJECT: Minimum Wage for Certain Indiana Employees.

FIRST AUTHOR: Sen. Mrvan

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☒ FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill: (1) after June 30, 2015, increases the minimum wage paid to certain employees in Indiana from \$7.25 to \$8.50; and (2) after June 30, 2016, increases the minimum wage paid to certain employees in Indiana from \$8.50 to \$10 an hour. It also makes technical corrections and corresponding changes and removes outdated language.

Effective Date: July 1, 2015.

Summary of NET State Impact:

Table 1: Net State Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Expenditure</i>	<i>Revenue</i>	<i>Total</i>
Increase - \$7.25 to \$8.50 (FY 2016)	(\$780,000)	\$63,000	(\$717,000)
Increase - \$7.25 to \$10.00 (FY 2017)	(\$2,317,000)	\$736,000	(\$1,581,000)
<i>Impact for Biennium</i>	<i>(\$3,097,000)</i>	<i>\$799,000</i>	<i>(\$2,298,000)</i>

Explanation of State Expenditures: Table 2 shows the estimated expenditure impact to the state for FY 2016 and FY 2017.

Table 2: State Expenditure Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Increase in Payroll Expense</i>	<i>Increase in Fringe Benefits Expense</i>	<i>Total</i>
Increase - \$7.25 to \$8.50 (FY 2016)	\$630,000	\$150,000	\$780,000
Increase - \$7.25 to \$10.00 (FY 2017)	\$1,890,000	\$427,000	\$2,317,000
<i>Impact for Biennium</i>	<i>\$2,520,000</i>	<i>\$577,000</i>	<i>\$3,097,000</i>

This estimate was determined using July 2014 state employee data from the State Personnel Department. According to this data, fewer than 1,600 state employees will be affected by a minimum wage increase, and these include part-time and seasonal employees. Fringe benefits include pension, health insurance, life insurance, etc.

An increase of the state minimum wage may also affect private organizations that do business with the state and that employ individuals who currently earn less than \$10.00 per hour. Requiring these organizations to increase wages to those employees may increase their costs, thereby increasing contract costs for the state. Those potential increases are indeterminate at this time.

Explanation of State Revenues: Table 3 shows the estimated revenue impact to the state for FY 2016 and FY 2017.

Table 3: State Revenue Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Increase in State Income Tax Revenue from State Employees</i>	<i>Increase in State Income Tax Revenue From Local Employees</i>	<i>Total</i>
Increase - \$7.25 to \$8.50 (FY 2016)	\$15,000	\$48,000	\$63,000
Increase - \$7.25 to \$10.00 (FY 2017)	\$46,000	\$690,000	\$736,000
<i>Impact for Biennium</i>	<i>\$61,000</i>	<i>\$738,000</i>	<i>\$799,000</i>

Increasing the minimum wage of certain employees will increase the revenue collected from the individual adjusted gross income (AGI) tax.

The estimated increase in AGI tax revenue was computed using the effective tax rates of taxpayers with similar levels of income. The revenue impact will begin in FY 2016 as employers begin remitting withholding tax based on the new minimum wage. The revenue from the AGI tax is deposited in the state General Fund.

Summary of NET Local Impact:

Table 4: Net Local Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Expenditure</i>	<i>Revenue*</i>	<i>Total</i>
Increase - \$7.25 to \$8.50 (FY 2016)	(\$2.3 M)	\$28,000	(\$2.2 M)
Increase - \$7.25 to \$10.00 (FY 2017)	(\$32.7 M)	\$324,000	(\$32.4 M)
<i>Impact for Biennium</i>	<i>(\$35.0 M)</i>	<i>\$352,000</i>	<i>(\$34.6 M)</i>
<i>* Local revenues will not actually be realized until CY 2017.</i>			

Explanation of Local Expenditures: Table 5 shows the estimated expenditure impact to local units for SFY 2016 and SFY 2017.

Table 5: Local Expenditure Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Increase in Payroll Expense</i>	<i>Increase in Fringe Benefit Expense</i>	<i>Total</i>
Increase from \$7.25 to \$8.50 (FY 2016)	\$2.0 M	\$0.3 M	\$2.3 M
Increase from \$7.25 to \$10.00 (FY 2017)	\$28.4 M	\$4.3 M	\$32.7 M
<i>Impact for Biennium</i>	<i>\$30.4 M</i>	<i>\$4.6 M</i>	<i>\$35.0 M</i>

LSA utilized May 2013 Occupational Employment Statistics data from the U.S. Bureau of Labor Statistics. This data does not include information on school or hospital employees. Using a 24-hour work week (which is typical for many minimum wage employees and other low-wage hourly workers), this data shows that increasing the minimum wage to \$10.00 per hour would affect roughly 23,000 local government employees.

LSA assumes a 15% fringe benefit rate for local units for this analysis. This includes Social Security at 7.65% of payroll and assumes minimal other benefits, such as health insurance. This is an estimate, and the actual fringe benefit costs (especially for those units who participate in PERF or provide other pension benefits) may be higher than this estimate.

Explanation of Local Revenues: Table 6 shows the estimated revenue impact to local units for CY 2017 and CY 2018.

Table 6: Local Expenditure Impact of Two-Year Phase-In of Increase in State Minimum Wage from \$7.25 to \$10.00			
	<i>Increase in Local Income Tax Revenue from State Employees*</i>	<i>Increase in Local Income Tax Revenue from Local Employees *</i>	<i>Total</i>
Increase from \$7.25 to \$8.50 (FY 2016)	\$7,000	\$21,000	\$28,000
Increase from \$7.25 to \$10.00 (FY 2017)	\$20,000	\$304,000	\$324,000
<i>Impact for Biennium</i>	<i>\$27,000</i>	<i>\$325,000</i>	<i>\$352,000</i>
* Local revenues will not actually be realized until CY 2017.			

Increasing the minimum wage of certain employees will increase the total statewide revenue collected by local option income taxes (LOIT). The additional revenue from this bill will likely affect LOIT certified distributions beginning CY 2017 and each year thereafter.

The estimated increase in AGI tax revenue was computed using the effective tax rates of taxpayers with similar levels of income.

State Agencies Affected: All

Local Agencies Affected: All

Information Sources: State Personnel Department Staffing Data; U.S. Bureau of Labor Statistics Occupational Employment Statistics (http://www.bls.gov/oes/2012/may/oes_research_estimates_2012.htm); LSA Income Database; Internal Revenue Service, Statistics of Income - Tables 2, Indiana, Tax Year 2012, December 2013.

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